

PRESS STATEMENT

Statement by the Prime Minister  
The Hon. E.G. Whitlam, Q.C. M.P.

Change in the Exchange Rate  
of the Australian Dollar

The Australian dollar will be devalued by 12 per cent as from 6.00 a.m., the Prime Minister announced today. The initial rate against the US dollar will be \$A1 = \$US1.3090.

The fixed link to the US dollar will be discontinued. In future the exchange rate for the Australian dollar will be determined by changes in an average of foreign currency values weighted in accordance with trading significance to Australia. This means that the rate for the Australian dollar will tend to vary from day to day against all currencies including the US dollar, in a manner which will maintain constant the weighted average exchange value.

When the Government came into office it was faced with a situation of high and growing international reserves and an excessive level of domestic liquidity giving rise to strong inflationary pressures. In these circumstances it was appropriate to appreciate the Australian dollar and the Government had acted to do so by 7.05 per cent within weeks of taking office in December 1972.

In September 1973 a further appreciation of 5 per cent was undertaken. Since that time there had been a further effective appreciation of the Australian dollar of about 5½ per cent as a result of the rise in value of the US dollar against other currencies, taken

as a whole. The Prime Minister said that in 1973/74 the Australian economy had benefitted from the rising international value of the Australian dollar. As the Treasurer had said in his Budget Speech, nearly one-half of the increase in demand in 1973/74 had been satisfied by the increase in imports which had been induced by this amongst other measures.

It had been appropriate to appreciate the Australian dollar when reserves were excessive and a boom in demand was over-straining domestic resources. It is now appropriate, in the light of the changed outlook for the balance of payments and the slow-down in the domestic economy, to depreciate.

The Prime Minister emphasised that the depreciation will give a fillip to many domestic industries. Export industries, such as the rural and mining industries and manufacturing exporters, will benefit particularly, as will those sectors of industry experiencing undue pressure from import competition. In these ways the devaluation will have beneficial effects on the climate in which business operates. It will thereby assist in restoring the general level of business activity and in the maintenance of employment opportunities. If unchecked, unemployment could destroy the efforts which the Government is making in co-operation with unions, employers and State Governments to reduce inflation.

While some increase in costs of a number of import items will probably result from this move, it is essential, if inflation is to be overcome in Australia,

that conditions be created which are favourable to continued economic growth and full and effective use of Australian resources.

25 September 1974